



Industry overview — as it relates to executive compensation

## Utilities

As climate change drives severe weather events, which adversely impact utility network operations and safety, utilities are focused on developing networks that can better withstand extreme and volatile weather patterns. Though they have historically contributed to climate change, most utilities have committed to certain greenhouse gas (GHG) emissions-reduction goals — with some making decarbonization and a clean energy future a key strategic pillar. Electric utilities are shifting away from “dirty” generation (e.g. coal) to “clean” generation alternatives (e.g. solar, wind, hydro, etc.)

With utilities’ incorporation of non-financial metrics in incentive plans in support of better alignment with customers and ratepayers, the industry is generally ahead of most others in terms of incorporating social metrics in incentive plans (e.g., customer satisfaction and safety) — and now climate-related metrics are increasingly prevalent. Many are now considering adding environment objectives to executive incentive plans — which would support not only companies’ pursuit of climate goals but also approval of customer rates.



### What are companies measuring and reporting?

Generally speaking, companies are measuring and reporting on carbon intensity, number of environmental incidents, energy usage and GHG emission reductions.



### Aligning climate goals and targets with executive compensation

Globally, around 65% of utilities companies have environmental metrics in their executive incentive plans. This figure is broadly the same when we look separately at U.S. practices and European plus U.K. practices. At present, there are more examples of such metrics in the short-term incentive (STI). However, in recent years, there has been an increase in prevalence of environmental metrics in long-term incentive plans (LTI), driven in part by long-term carbon-neutral and carbon reduction goals. Such metrics usually appear in LTI plans as a weighted measure.

Example metrics and weightings in STI plans include:

- Long-term emission goals related to nitrogen oxide, sulfur dioxide and mercury (7.5%)
- Environmental stewardship around utility carbon dioxide emission rate outcomes (10%)

Example metrics and weightings in LTI plans include:

- Clean energy transition — renewable generation and energy storage additions (10%)
- Non-emitting generation capacity (8%)

- Clean energy and electrification work plan milestones and tasks and growth in renewable portfolio (MW (AC)) (10%)
- Environmental impact measured by a GHG emissions reduction goal (3%), carbon emissions reductions (30%) and net megawatt change and GHG qualitative metrics (10%)

Going forward, we expect to see:

- Increases in the materiality and disclosure of STI and LTI climate measures
- Revisiting and refining climate-related metrics to ensure executives have clear line of sight
- No commonality of measurement across utilities; instead, we expect to see tailored metrics aligned with each company's climate commitments



### Challenges aligning climate goals and executive compensation

Challenges for the sector include:

- Balancing financial viability with GHG emission commitments
- Building resilient networks absent of industry-wide guidelines
- Developing cost-effective green energy alternatives.



### Leading company example — Portland General Electric

- **Metric name and description:** “Clean Energy” — Average megawatts of forecast energy from carbon-free resources, Oregon Renewable Portfolios Standard-qualifying resources, and low-carbon emitting (i.e.  $\geq 95\%$  carbon-free) systems of resources added to the company's energy supply portfolio during the performance period.
  - **Weight in vehicle:** 33% of the long-term incentive plan